The KSA Perspective

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Footwear profile for 1989

Athletic specialists lead fourth year of growth, but only half of 23 public firms improve results

Public footwear companies improved their total sales by 19% in fiscal 1989 — and profits soared 43% — making it one of the best years in recent times. However, it was not a good year for all of the firms in the Profile. Only a dozen of them showed profit gains (primarily the athletic footwear specialists and the retailers.) Eleven had profit declines or showed losses.

Athletic Profits Jumping.

Although all sectors of footwear showed good composite results, the athletic group was the leader by far. Sales for its five members were up 29% to $4.3 billion, and profits rose 53% to $401 million, which was 9.4% of sales. The jump in profits came largely from increased prices, more sales of high-end styles, and regained control over sourcing costs. Gross profit was a whopping 39% of sales, up from 36% in 1988 and greatly outpacing increased advertising and promotion costs. (SG&A rose from 22% to 23% of sales.)

Athletic footwear has more than tripled its sales in the past five years and now represents 48% of the Profile's volume (45% last year.) Its returns are more than double those of other sectors.

How far can it continue to go? *Reebok's* current success with The Pump suggests that there are still consumers who will respond to new performance concepts, regardless of price. And while the U.S. market may seem close to sneaker-saturation, the big three athletic specialists have already started to market their brands globally. Further, *Nike* and *L.A. Gear* are seriously into apparel; only *Reebok* has neglected that growth area. So while the outlook may be questionable for more of the same growth for athletic footwear in the U.S., the companies involved have other eggs in other baskets.

Meanwhile, *Reebok* and *Nike* are racing neck-and-neck for the top spot, with *L.A. Gear* only a billion dollars behind but gaining rapidly. Like *Reebok* and *Liz Claiborne* in their early years, *L.A. Gear* has grown at triple-digit annual rates since it first appeared in KSA's Profile in 1985. Its sales rose 176% last year, and it led the industry in three return ratios while ranking no lower than fourth in four others . . . However, newcomer *K-Swiss* placed first in return on equity for fiscal 1989, by combining solid growth with high leverage.

Reebok grew 2% to $1.8 billion in 1989, while *Nike's* sales leaped 42% to $1.7 billion. *Nike* has been taking market share for men's performance sneakers, has a growing apparel activewear division, and is expanding in Europe . . . Considering market growth there, and internal problems hampering Europe's top two athletic footwear firms (*adidas* and *Puma*), the race between *Reebok* and *Nike* may soon expand into a global marathon.

Domestic Manufacturers Do Poorly.

In stark contrast to the athletic footwear specialists, the 15 publicly owned manufacturing/sourcing companies in this year's Profile had a poor year. Although total sales of these predominantly small (median $75 million) domestic manufacturers rose 10% above 1988, altogether they barely exceeded *Reebok's* volume. And, while dollar profits for the group were up 15% in total, only five companies contributed to the advance; 10 of the 15 firms suffered profit

For the first time in years, the number of public footwear companies has grown. *K-Swiss*, an athletic shoe firm, made its initial public offering and joined KSA's Profile for 1989. *Justin Industries*, regarded as a conglomerate in past Profiles, was reclassified as a manufacturer because its boot business is now more than half of total sales. However, *Edison Bros. Stores* has departed. The retailer has been switching its emphasis from footwear to apparel, and last year the latter accounted for 55% of total sales. Only the company's sales and earnings are listed here; *Edison's* full data appear in our Retail Profile.

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Sales and Earnings*

SALES RANK 1989	SALES RANK 1988	Company	Sales ($000)	Net Income ($000)
1	1	Woolworth 01/90-C (34%)	2,357,000	261,000 §
2	2	Reebok International 12/89-A	1,822,092	174,998
3	3	Brown Group 01/90-R/D	1,820,547	33,827
4	5	Nike 05/89-A	1,710,803	167,047
5	4	Melville Corp. 12/89-C (44%)	1,697,614	147,987 §
6	6	May Dept. Stores Co. 01/90-C (13%)	1,228,000	144,000 §
7	8	Interco 01/89-C (46%)	915,000	45,000 §
8	+	U.S. Shoe 01/90-C (31%)	791,000	30,000 §
9	13	L.A. Gear 11/89-A	617,080	55,059
10	9	Genesco 01/90-R/D	492,248	18,871
11	+	Edison Brothers Stores 01/90-C (45%)	479,200	20,800 §
12	10	The Stride Rite Corp. 11/89-M	454,373	45,672
13	12	J. Baker 01/90-R/D	399,230	13,149
14	11	Wolverine World Wide 12/89-M	323,591	7,287
15	17	Justin Industries 12/89-M	277,930	7,198
16	14	Phillips-Van Heusen 01/90-C (33%)	239,541	+
17	15	The Timberland Company 12/89-M	156,141	6,380
18	16	Weyenberg Shoe Mfg. Co. 12/89-M	138,868	6,385
19	18	R.G. Barry Corp. 12/89-M	122,825	3,744
20	19	Suave Shoe Corp. 09/89-M	86,743	428
21	20	Tony Lama Company 12/89-M	75,643	–1,814
22	+	K-Swiss 12/89-A	69,423	4,756
23	21	Hyde Athletic Industries 12/89-A	57,230	227
24	23	B.B. Walker Company 10/89-M	42,998	443
25	22	Jumping Jacks Shoes 04/89-M	36,701	–3,264
26	24	McRae Industries 07/89-M	33,097	2,112
		10/89	32,565	1,855
27	27	Wellco Enterprises 06/89-M	29,154	2,457
		12/89	25,997	1,935
28	26	Shaer Shoe Corp. 10/89-M	21,612	101
29	29	Daniel Green Company 12/89-M	18,315	171
30	28	Penobscot Shoe Company 11/89-M	14,314	–208
		Sales Total	**$16,528,313**	

* Where available, quarterly data have been added to show latest 12 months' performance. Where previous year's figures have been restated by a company, they are not reflected in the Profile.
Percent figure is footwear portion of total sales for conglomerates.
§ Operating Earnings + Not available

Footwear Performance Profile — Fiscal 1989

COMPANY	RETURN ON SALES %	89	88	RETURN ON TOTAL EQUITY %	89	88	TOTAL DEBT TO ASSETS 89	88	RETURN ON TOTAL ASSETS %	89	88	RETURN ON NET OPERATING ASSETS %	89	88	GROSS PROFIT %	89	88	OPERATING EARNINGS %	89	88	INVENTORY TURNS 89	88	RETURN ON INVESTED CAPITAL %	89	88
J BAKER INC 01/90-R/D	3.29	11	12	15.42	8	6	0.64	4	5	5.54	11	10	26.83	7	7	38.17	5	9	7.22	9	11	2.26	17	16	9.15	10	9
R G BARRY CORP 12/89-M	3.05	12	19	11.93	11	18	0.48	10	9	6.24	10	18	15.77	10	21	38.52	4	4	6.05	11	21	3.91	7	7	8.64	11	18
BROWN GROUP INC 01/90-R/D	1.69	15	++	9.98	12	++	0.52	6	7	4.74	12	++	12.27	12	12	37.57	7	3	3.47	17	18	3.39	11	10	7.18	12	++
DANIEL GREEN COMPANY 12/89-M	0.93	16	+	1.80	18	+	0.51	7	14	0.88	18	+	5.64	18	16	27.92	16	18	5.32	13	10	1.64	22	20	1.80	17	+
GENESCO 01/90- R/D	3.83	10	14	12.37	10	13	0.45	12	9	6.74	9	13	11.08	13	14	37.78	6	7	5.09	14	16	2.56	14	14	9.29	9	13
HYDE ATHLETIC INDUSTRIES 12/89-A	-1.08	+	20	0.85	+	20	0.43	13	14	0.49	+	20	-2.88	21	23	25.80	17	13	-2.10	21	23	2.01	18	19	0.57	+	20
JUMPING JACKS SHOES 04/89-M	-8.89	22	21	-69.80	22	21	0.81	2	3	-13.39	22	21	-8.19	22	22	29.68	14	14	-4.63	22	22	1.71	21	22	-69.80	22	21
JUSTIN INDUSTRIES, INC 12/89-M	2.59	13	13	6.76	15	14	0.50	8	7	3.41	15	16	9.68	15	15	29.71	13	15	5.88	12	12	2.44	15	17	4.42	16	16
K-SWISS 12/89-A	6.85	6	8	55.77	1	1	0.84	1	1	9.03	8	9	30.18	6	4	36.19	9	11	17.00	2	3	1.72	20	23	19.15	4	5
L A GEAR 11/89-A	8.92	4	1	32.73	2	2	0.37	15	4	20.66	1	1	50.77	1	2	41.91	2	2	16.88	3	1	3.48	10	12	32.73	1	1
MCRAE INDUSTRIES INC 07/89-M	6.38	7	5	17.59	7	4	0.30	18	19	12.36	6	2	31.15	5	1	24.63	18	19	10.95	7	5	6.18	4	4	17.27	7	2
NIKE INC 05/89-A	9.76	2	4	29.72	3	3	0.32	17	16	20.24	2	4	48.41	2	5	37.17	8	10	16.43	4	6	5.10	5	5	28.02	2	3
PENOBSCOT SHOE COMPANY 11/89-M	-1.45	20	7	-2.06	20	11	0.09	23	23	-1.88	20	7	-9.27	23	9	24.63	18	8	-6.62	23	9	3.84	8	8	-2.06	20	11
REEBOK INTERNATIONAL 12/89-A	9.60	3	6	20.73	5	8	0.28	19	18	15.00	5	6	38.44	4	3	40.39	3	5	15.48	5	4	3.75	9	9	18.33	6	7
SHAER SHOE CORP 10/89-M	0.47	19	10	0.79	19	14	0.19	22	22	0.64	19	11	-1.62	20	18	10.41	23	22	-0.93	20	15	11.35	1	1	0.79	19	14
THE STRIDE RITE CORP 11/89-M	10.16	1	3	27.40	4	5	0.34	16	13	18.15	3	5	40.50	3	6	44.68	1	1	17.25	1	2	2.32	16	15	26.48	3	4
SUAVE SHOE CORPORATION 09/89-M	0.53	18	18	2.01	17	19	0.46	11	11	1.09	17	19	7.74	17	20	12.66	22	23	2.57	18	20	7.12	3	3	1.68	18	19
THE TIMBERLAND COMPANY 12/89-M	4.09	9	9	8.52	13	12	0.49	9	11	4.30	13	12	12.28	11	11	36.12	10	6	8.66	8	8	1.82	19	18	5.25	13	12
TONY LAMA COMPANY INC 12/89-M	-1.54	21	17	-6.20	21	17	0.58	5	6	-2.60	21	17	2.74	19	17	28.53	15	17	2.13	19	14	1.53	23	21	-4.21	21	17
B B WALKER COMPANY 10/89-M	0.67	17	15	7.20	14	7	0.76	3	2	1.74	16	14	9.95	14	19	22.43	20	20	4.51	15	19	2.63	13	13	4.85	14	8
WELLCO ENTERPRISES 06/89-M	8.43	5	2	18.76	6	9	0.20	21	20	15.05	4	3	23.97	8	8	17.00	21	21	11.19	6	7	7.46	2	2	18.76	5	6
WEYENBERG SHOE MFG CO 12/89-M	4.60	8	11	14.20	9	10	0.28	19	20	10.27	7	8	20.45	9	10	35.33	11	12	6.98	10	13	4.16	6	6	14.20	8	10
WOLVERINE WORLD WIDE INC 12/89-M	2.25	14	16	6.28	16	16	0.39	14	17	3.85	14	15	8.83	16	13	29.86	12	16	3.90	16	17	3.11	12	11	4.79	15	15

+ Extraordinary gains exceed 1% of net sales; unranked.
++ Extraordinary losses exceed 1% of net sales; unranked.

Return on Net Operating Assets is a new ratio added to the Profile to present a truer measure of operating performance. It is derived by dividing Operating Earnings by Current Assets minus Accounts Payable and Other Current Liabilities, plus Net Fixed Assets.

Industry Sector Results

Industry Sectors and Top Performers	No. of Firms Reported	Sales ($000)	Net Income ($000)	Return on Sales %	Return on total Equity %	Total Debt to Assets	Return on Total Assets %	Return on Net Operating Assets	Gross Profit %	Oper. Earn. %	Inv. Turns	Return on Invested Capital %
Manufacturing/Sourcing (M)												
1989	15	1,832,305	77,092	4.26	11.70	.43	6.64	16.48	33.41	8.12	2.71	9.21
1988 (FY '88 Profile: 14)	15	1,663,878	67,740	4.10	11.32	.46	6.09	14.27	32.65	7.52	3.00	8.82
Athletic Footwear (A)												
1989	5	4,276,628	402,087	9.38	24.98	.32	17.05	42.36	39.06	15.85	4.01	22.54
1988 (FY '88 Profile: 4)	5	3,308,794	262,721	7.94	22.37	.41	13.27	33.86	35.94	13.68	4.22	19.60
Retail/Diversified (R/D)												
1989	3	2,712,025	65,847	2.32	11.42	.53	5.35	13.80	37.69	4.32	2.99	8.05
1988 (FY '88 Profile: 4)	3	2,418,856	31,577	1.95	6.24	.54	2.86	12.67	37.22	4.07	2.96	4.38
Industry Totals												
1989	23	8,820,958	545,026	6.15	19.15	.40	11.48	28.16	37.46	10.70	3.31	15.85
1988	23	7,391,528	362,038	5.12	15.89	.46	8.63	22.60	35.62	9.15	3.43	12.79

declines ranging from $220,000 to $2.4 million.

Thanks to turnarounds of $4.5 million by *R.G. Barry* and $600,000 by *Suave Shoe*, plus profit advances of $12.8 million by *Stride Rite*, $1.3 million by *Weyenberg*, and $300,000 by *Wellco*, the sector was able to show a $10 million pick-up in profits before extraordinary items. The group's joint return on equity was a respectable 11.7%, but the median was only 6.8%. It is difficult to find a single reason that fits all instances, although most of the poor results can probably be blamed on rising cost of goods sold after excluding the importers.

Not surprisingly, the stand-out manufacturing performer — *Stride Rite* — is benefitting from its athletic footwear division (Keds) which achieved high margins and 40% growth in 1989. *Stride Rite* as a whole grew 20% to $454 million sales and took the gold for best gross profit (45% of sales.) The company also ranked first in operating earnings (17.25% of sales) and return on sales (10.2%) Its return on equity was 27.4% — up from 10% in 1985.

(Cont'd on page 4.)

Classifications

Manufacturing/Sourcing (M) includes companies deriving 50% or more of their sales from footwear manufacturing or importing.

Athletic (A) includes companies that meet the above definition, but specialize in athletic footwear.

Retailing/Diversified (R/D) includes companies primarily engaged in footwear, although they may also derive some of their sales from other product categories. These companies manufacture, import, or retail footwear.

Conglomerate (C) are companies whose footwear volume, from either manufacturing or retailing, is significant but represents less than 50% of their sales. Only their sales and operating earnings appear in the Profile.

Noteworthy Performances

Return on Total Equity

	1989 %	1985-89 %	1985-89 Rank
1 K-Swiss	55.77	—	—
2 L.A. Gear	32.73	33.47	1
3 Nike	29.72	19.67	7
4 Stride Rite	27.40	19.84	6
5 Reebok	20.73	25.87	3

Return on Sales

Before extraordinary items.

	1989 %	1985-89 %	1985-89 Rank
1 Stride Rite	10.16	7.51	4
2 Nike	9.76	6.44	6
3 Reebok	9.60	10.42	2
4 L.A. Gear	8.92	8.72	3
5 Wellco	8.43	11.12	1

Composite Profit and Loss Data — Footwear Industry

(23 Companies)

FISCAL PERIOD ENDING	1989		1988		1987		1986		1985	
	$	PCT	$	PCT	$	PCT	$	PCT	$	PCT
Net Sales	8820958	100.00	7381528	100.00	5983307	100.00	5377874	100.00	4575110	100.00
-Cost of Goods Sold	5516229	62.54	4758725	64.38	3745629	62.60	3351602	62.32	2986540	65.28
Gross Profit	3304729	37.46	2632803	35.62	2237678	37.40	2026272	37.68	1588570	34.72
-Sell. Gen. & Admin	2361011	26.77	1956466	26.47	1638310	27.38	1453247	27.02	1325828	28.98
Operating Earnings	943718	10.70	676337	9.15	599368	10.02	573025	10.66	262742	5.74
-Interest Expense	101133	1.15	81567	1.10	52575	0.88	62012	1.15	65881	1.44
Misc. Inc. or Exp	31795	0.36	20323	0.27	34379	0.57	17733	0.33	18287	0.40
Income Before Tax	874380	9.91	615093	8.32	581172	9.71	528746	9.83	215148	4.70
- Income Tax	332181	3.77	236851	3.20	258055	4.31	256873	4.78	112676	2.46
Income After Tax	542199	6.15	378242	5.12	323117	5.40	271873	5.06	102472	2.24
Extraordinary Item	2827	0.03	-16204	-0.22	8350	0.14	17622	0.33	-25838	-0.56
Net Income	545026	6.18	362038	4.90	331467	5.54	289495	5.38	76634	1.68
No. of companies	*23*		*23*		*22*		*21*		*20*	
FLOW OF FUNDS ANALYSIS										
Working Cap at Start	1873103		1598754		1420170		1196359		1125821	
Net Income	545026		362038		331467		289495		76634	
Depreciation	107980		96088		75652		68666		67450	
Change in L-T Debt	42013		190514		3006		32502		28596	
Change in Deferred	21027		1425		9314		-8422		8249	
Change in Pref Stk	-17146		-32017		1486		12902		375	
Change in Common	150081		35578		184972		113974		43541	
Dividends Paid	-100028		-81737		-74290		-51627		-54577	
Capital Expend	-198491		-159588		-138714		-85006		-84782	
Misc Assets Change	-30951		-133732		-162466		-136034		-22367	
Misc Transactions	-7814		-2220		-51843		-12639		7419	
Working Cap at End	2384803		1873103		1598754		1420170		1196359	

The Complete Profile

A full print-out covering fiscal years ending 1985 through 1989 is available for in-depth comparisons and study.

For each of the companies, as well as the industry segment composites and the total industry aggregate, the report contains a full financial statement, a balance sheet, and a comprehensive list of ratios.

It is available from KSA at a cost of $400.

Disclaimer

The information presented in this Performance Profile was obtained from available annual reports made by public companies to their stockholders and to the Securities and Exchange Commission. While we believe the information furnished to be reliable, no representations are made as to the accuracy thereof. Kurt Salmon Associates assumes no responsibility for any errors in the Performance Profile, whether of omission or commission.

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Retailing/Diversified A Mixed Picture.

Without *Edison Brothers*, the retail/diversified sector is down to only three companies — albeit large ones. *Brown Group, J. Baker*, and *Genesco* combined to generate $2.7 billion in sales last year, 12% more than in 1988. Their combined profits rose 32% to $62.8 million, a mediocre 2.3% of sales that has typified the sector's performance over the last five years. (With *Edison*, the figure would be 3.3%.)

J. Baker went ahead 60% in both sales and profits, but its equity more than doubled last year, bringing its ROE down to 15.4% from the low 20's. This innovative retailer describes itself as the largest independent operator of licensed shoe departments among mass merchants, with 1135 units limited thus far to the Northeast quadrant of the country . . . *Brown* and *Genesco* posted quieter results, partially reflecting their mix of manufacturing with retailing.

Over-all, the public footwear industry presents a wildly mixed picture. Five of its companies are generating over half of its sales and 85% of its profits. The other 18 firms compete in other areas, and there should be room for them to prosper on a smaller scale. But they face an array of different problems, ranging from marketing to manufacturing costs. There is no single perspective from which to view this industry clearly today.

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